

BEFORE THE
FEDERAL ENERGY REGULATORY COMMISSION

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IN THE MATTER OF: :

CONSENT MARKETS, TARIFFS AND RATES - ELECTRIC :

CONSENT MISCELLANEOUS ITEMS :

CONSENT MARKETS, TARIFFS AND RATES - GAS :

CONSENT ENERGY PROJECTS - HYDRO :

CONSENT ENERGY PROJECTS - CERTIFICATES :

DISCUSSION ITEMS :

STRUCK ITEMS :

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830TH COMMISSION MEETING

OPEN MEETING

Commission Meeting Room

Federal Energy Regulatory

Commission

888 First Street, N.E.

Washington, D.C.

Wednesday, June 4, 2003

10:10 a.m.

APPEARANCES:

COMMISSIONERS PRESENT:

CHAIRMAN PAT WOOD, III, Presiding

COMMISSIONER NORA MEAD BROWNELL

COMMISSIONER WILLIAM L. MASSEY

SECRETARY MAGALIE R. SALAS

ATTENDEES:

JASON STANEK

JOHN CARLSON

SANDRA DELUDE

SANDRA ELLIOT

KATHERINE GENSLER

MICHAEL GOLDENBERG

ROBERT SHELDON

FRANK SPARBER

MICHAEL McGEHEE

CECILIA DESMOND

ELIZAABETH ZERBY

ROBERT PETROCELLI

RAYMOND JAMES

SHEILA HERNANDEZ

AMY HEYMAN

ALSO PRESENT:

JANE W. BEACH, Court Reporter

PROCEEDINGS

(10:10 a.m.)

CHAIRMAN WOOD: Good morning. This open meeting of the Federal Energy Regulatory Commission will come to order to consider the matters which have been posted in accordance with the Government in the Sunshine Act for this time and place.

Please join us in the Pledge to the Flag.

(Pledge of Allegiance recited.)

CHAIRMAN WOOD: Before we start, I want to thank our staff for the great work they did getting a tremendous number of Orders through the system today for us to consider. I want to thank my colleagues and their staff for their every-collegial approach on these things, and note that we have a few struck items, some of which will be handled through delegated authority, some of which will be dealt with notationally before our next open meeting in three weeks, and others will be added to the -- the remainder will be added to the open meeting in three weeks, so if you're looking for those items, they will come out shortly.

Madam Secretary?

SECRETARY SALAS: Good morning, Mr. Chairman and good morning, Commissioners.

The following are the items that have been struck

from the agenda since the issuance of the Sunshine Notice on May 28th: E-6, E-10, E-11, E-12, E-17, E-26, E-27, E-43, E-47; G-21; H-1, H-4; and C-1.

Your consent agenda for this morning is as follows: Electric Items - E-1, 4, 8, 9, 13, 15, 16, 18, 19, 21, 22, 23, 25, 28, 29, 30, 32, 35, 36, 37, 38, 42, 48, 49, 51, 52, 54, and 55.

Gas Items - G-4, 5, 6, 7, 9, 10, 11, 12, 13, 14, 15, 16, 19, 20, 23, 25, and 27.

Hydro Items - H-2, 3, and 5.

Certificates - C-3, 4, 5, 6, 7, 8, and 9.

The specific votes for some of these items are as follows: G-4, Commissioner Brownell dissenting, in part, with a separate statement; G-7, Commissioner Brownell concurring, in part, with a separate statement; H-2, Chairman Wood dissenting with a separate statement, and Commissioner Massey votes first this morning.

COMMISSIONER MASSEY: Aye.

COMMISSIONER BROWNELL: Aye, noting my partial dissent on G-4 and partial concurrence on G-7.

CHAIRMAN WOOD: Aye, noting my dissent on H-2.

SECRETARY SALAS: The first item in the discussion agenda this morning is a joint presentation of G-1, Calpine Energy Services; G-17, Tennessee Gas Pipeline Company, and G-18, Northern Natural Gas Company.

This presentation will be made by Jason Stanek, accompanied by John Carlson, Sandra Delude, Sandra Elliott, Katherine Gensler, Michael Goldenberg, Robert Sheldon, and Frank Sparber.

MR. STANEK: Good morning, Mr. Chairman and Commissioners. Over the past nine months, a number of pipelines have filed revisions to the creditworthiness provisions in their tariffs. Before you today is a draft Order on a complaint filed by Calpine Energy Services against Southern Natural Gas Company.

In addition, you have draft Orders for hearing and compliance for Tennessee Gas Pipeline Company and Northern Natural Gas Company. These Orders provide clarification with regard to the amount of collateral pipelines can require for new construction.

The Calpine Order addresses a complaint alleging that Sonat's imposed excessive collateral requirements on its non-creditworthy shippers in connection with construction with mainline expansion facilities. Specifically, Calpine contends that Sonat's requirement that non-creditworthy shippers provide 30 months of demand charges as collateral, violates the express terms of its service agreement, Sonat's tariff, and Commission policy.

The draft Order denies Calpine's complaint, finding that Sonat's collateral requirement is not

unreasonable when compared to the risks that Calpine and other non-creditworthy shippers pose.

It also finds no basis to undo an agreement under which the parties have been operating for two years, and after construction has already commenced.

The Order states that collateral requirements for mainline expansions should be included in the parties' precedent agreements and that issues relating to collateral for mainline expansions should be raised during the certificate proceedings, not after the pipeline has secured financing based on that collateral and has commenced construction.

The draft Orders for Tennessee and Northern explain that with regard to the construction of new interconnecting and lateral lines, the Commission has allowed pipelines to include tariff provisions that would permit the pipeline to require collateral from the requesting shipper in an amount up to the cost of facilities.

With respect to mainline expansion projects, the Orders find that issues relating to collateral requirements should be addressed at the certificate stage of the proceedings. The Orders further clarify that the collateral required for shippers for any construction will continue to apply after the facilities go into service. Thank you.

CHAIRMAN WOOD: I know that the North American Energy Standards Board is meeting tomorrow to discuss a number of -- what do we call them -- standards to be applied for creditworthiness. Bill and I were looking at them on their web page yesterday.

And I hope that these Orders will provide some more clarity about the policy calls that the Commission is making on a number of issues. In addition to what Jason laid out, there are a number of other issues, particularly with the Tennessee Order, where I think the majority of them came up, but also in the Northern Natural Order, that I hope will be helpful for the NAESB members tomorrow. We do appreciate their assistance in getting some clarity and some focus on these issues.

But we acknowledge that we've got to make the policy calls here, and let them convert that into implementable standards that can help govern the industry well. So I want to just ask Madam Secretary if we can get these out as soon as we can after the meeting today, these three Orders.

SECRETARY SALAS: Yes, Mr. Chairman.

CHAIRMAN WOOD: That would be great. And thank you for your hard work on not only the paperwork, but the substantive analysis going on here.

COMMISSIONER MASSEY: I have a question. How was

30 months selected here? What factors went into that, and in recommending to us that we accept that as reasonable, how did you balance the equities here?

MR. STANEK: Approximately \$92 million was the original amount of the cost of facilities that Calpine would be responsible for in its mainline expansion. Sonat concluded that only 30 months, which was approximately \$30 million worth of demand charges or one-third of Calpine's share of the allocated cost of facilities, would be a reasonable amount of collateral, and that 30 months would be a reasonable amount of time in which to re-market that amount of capacity.

MR. GOLDENBERG: There were some other factors as well, Commissioner. In this particular project, I believe that half of the participants were considered to be non-creditworthy, and Sonat argued that that would have increased their risk and made it more difficult, perhaps, to re-market the capacity, so that was another factor that was looked at.

COMMISSIONER MASSEY: And give me the procedural history on this matter. Was it that Calpine had agreed to this amount of collateral; did I hear you say that? And then they came in and challenged it?

MR. STANEK: That's correct. Approximately two years ago, Calpine had agreed to post that level of

collateral, and only now have they filed a complaint challenging that.

COMMISSIONER MASSEY: Well, to me, these are tough cases. We're certainly looking for the right balance here.

I think the pipelines have the right to feel a sense of security in going forward with a project. On the other hand, we don't want to have a policy that imposes unreasonable burdens on shippers. So we're looking for the right balance.

In looking at all the factors in this case, I have decided to vote for it, but I think it's a tough call. I had thought, early in our debate on this item, that perhaps it would be a good idea to hear from NAESB first and see what they had to say on a number of issues before them, before we voted.

But this is probably the kind of issue that NAESB is not going to deal with, because it involves a policy declaration by this Commission. So, I concluded that we ought to go ahead and vote on this. So I'll be voting for this Order.

COMMISSIONER BROWNELL: I think it's important -- and this was a difficult Order, and it is a difficult balance, particularly with so many members of the energy sector in some kind of jeopardy. But I think it is

important in that it does, and the rationale that you have recommended and applied, I think is understood; it's equitable, and I think people can plan for that in their business plans.

More importantly, though, I think these are the kinds of discussions and agreements that have to take place before construction and before financing takes place. You can't be revisiting these issues, because you'll wreck further havoc, if that's possible, on the whole credit opportunities for this community.

So I think that also weighs in the balance, and I want to encourage parties to make sure you bought into a deal that you can live with. So, I, too, will be supporting this Order.

CHAIRMAN WOOD: And I think that in a lot of comments that you all both raise, it is important to know that this does not -- this Order should not be read to stand for there is a new 30-month standard for expansions here. It is really based on what are the facts that before us. It was a different case than others we may see in the future, so I think people ought not look for the soundbite, but actually read the analysis of this Order, because that's what we'll be using in future issues of this type, if they come up.

So, on the package?

COMMISSIONER MASSEY: Aye.

COMMISSIONER BROWNELL: Aye.

CHAIRMAN WOOD: Aye. Thank you.

SECRETARY SALAS: The second item for discussion this morning is C-2, El Paso Natural Gas Company, with a presentation by Michael McGehee, accompanied by Cecilia Desmond, Elizabeth Zerby, and Robert Petrocelli.

MR. McGEHEE: Good morning, Mr. Chairman and Commissioners. Item No. C-2 grants certificate authority to El Paso Natural Gas Company to construct and operate its Power-Up Project, which consists of compression facilities on its existing Line 2000.

Line 2000 is a converted crude oil pipeline that roughly parallels El Paso's southern mainline system between McCaulley, Texas, and Ehrenberg, Arizona. El Paso placed Line 2000 into service on November 13, 2002 by installing compression facilities with a total of 151,600 horsepower at nine existing or new stations on Line 2000.

The proposed Power-Up Project will add 320,000 mcf per day of transportation capacity to El Paso's system.

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El Paso's interstate pipeline system transports natural gas from areas in southwestern United States to the states of Texas, New Mexico, Colorado, and Arizona to two points of termination at the boundary between the states of

California and Arizona near Ehrenberg and Topak, Arizona.

El Paso also delivers gas to numerous on-system delivery points and off-system eastern markets. El Paso's system consists of its South System and North System Mainlines that can deliver gas from three production areas: San Juan, Permian, and Anadarko, to various delivery points on its system.

Historically, El Paso has served its firm customers under two types of contracts: Contract demand and full requirements. Recently, various parties have raised capacity allocation issues regarding El Paso's system.

In Orders addressing these issues, the Commission found that El Paso does not have sufficient firm capacity to meet the growing demand for firm service and that firm service has been curtailed through pro rata allocations of service nominations on a routine basis.

In those Orders, the Commission also adopted a capacity allocation methodology for El Paso's system, which includes the 320,000 mcf per day of capacity from the Power-Up Project.

The additional capacity created by this Project is intended solely to allow El Paso to meet the needs of its existing firm customers under their existing and reformed contracts. Therefore, this Project will contribute to the resolution of the capacity allocation issues on El Paso's

system and the restoration of reliable firm transportation service to that system.

That concludes the presentation.

CHAIRMAN WOOD: Thank you, Mike. We had originally scheduled this for March 20-something meeting, and struck it at the time because of the proposed or now settlement of issues in the affiliate case, because this case, the capacity allocation docket and the Power-Up certificate were viewed as linked.

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We pulled those down at the time. What we issue here is an order that stands on its own as to opposed to is interwoven with the others. And so in the importance of getting the certificate out today, I think we've got it here to consider. And so I'm for it. I think it's quite frankly overdue. But I appreciate the effort that went into cleaning up the order and the usual environmental and siting analysis that's called for here.

I expect that some issues could have gone different ways, and with the capacity allocation proceeding rehearing coming up this summer, we'll clarify those issues in that docket. So I think this one stands on its own and is ready to go, so I will support it. Bill, have you got anything?

COMMISSIONER MASSEY: No.

CHAIRMAN WOOD: All right. Let's vote.

COMMISSIONER MASSEY: Aye.

COMMISSIONER BROWNELL: Aye.

CHAIRMAN WOOD: Aye. Thank you all.

SECRETARY SALAS: The final item for discussion this morning is C-1, Williston Basin Interstate Pipeline Company. Let me note for the record, Mr. Chairman and Commissioners, that this item was adopted by the notational process on June 2nd, 2003, but the Commissioners wanted to hear a presentation this morning. And this is a

presentation by Raymond James, accompanied by Sheila Hernandez and Amy Heyman.

MS. HERNANDEZ: Good morning, Chairman Wood and Commissioners. On June 2nd, 2003, an order was issued notionally authorizing Williston Basin Interstate Pipeline Company to construct and operate the Grasslands Pipeline Project.

Next slide please.

(Slide.)

The Grasslands Project will provide Williston Basin's shippers with a new northern outlet for the increasing production of Powder River Basin Gas located in Wyoming and Montana. It will enhance access to Williston Basin storage facilities in Eastern Montana, and it will provide access from Williston Basin storage facilities to additional downstream transportation facilities.

Furthermore, gas will be able to flow on a bidirectional basis if conditions require, thus providing system flexibility and operational reliability.

Next slide please.

(Slide.)

The Grasslands Project will consist of the construction of 5,380 horsepower of compression and 253 miles of pipeline extending from Campbell County, Wyoming to Dunn County, North Dakota. The Grasslands Project will

enable Williston Basin to transport up to 80,000 Mcf per day from developing coal bed and conventional natural gas production areas in the Powder River Basin to an interconnection with Northern Border Pipeline Company system in North Dakota.

In anticipation of Williston Basin commencing service on November 1st, 2003, a final EIS was issued two months ahead of schedule.

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(Slide.)

Williston Basin has subscriptions for 100 percent of the incremental capacity of the Grasslands Project. The Grasslands pipeline is designed so that the system can be easily expanded as the market for Powder River Basin production continues to grow.

On April 21st, 2003, Williston Basin filed in Docket Number PF03-3 a request to initiate a National Environmental Policy Act prefilig review of a new expansion project which will add another 120,000 Mcf per day of firm transportation capacity through the construction of compression facilities along the Grasslands pipeline.

Williston Basin expects to file a certificate application requesting authorization of the expansion facilities on or before November 1st, 2003, with service to begin by November 1st, 2004.

That concludes my presentation. Next, Ray James will discuss his analysis of current and projected pipeline capacity in the Rocky Mountain area.

MR. JAMES: Thank you. In my presentation I will provide an overview of the gas supply and pipeline infrastructure in four Western states: Wyoming, Montana, Utah and Colorado. These four states best represent the Rocky Mountain region because the majority of the gas supply basins either traverse these states or are located within these states.

Can I have the next slide, please?

(Slide.)

This slide shows the location of the natural gas supply basins located in the Rocky Mountain region with special emphasis on Wyoming. Within the Rocky Mountain region is a total undiscovered technically recoverable natural gas resources is estimated at 209 tcf. Of this amount, 29 tcf is from conventional resources, and the remaining 180 tcf is from unconventional or continuous resources. Of the conventional 180 tcf, 45 tcf is coal bed methane.

The majority of the natural gas resources in Wyoming are located in the Southwestern Wyoming province, which also includes the Green River Basin and the Powder River Basin. The total estimated reserves for these two

regions is 101 tcf. The estimate for coal bed methane in the Powder River Basin is 14.3 tcf. Nearly all of the undiscovered gas resources in these regions is unconventional. The estimated resource from the two basins -- I'm sorry, from the two regions in Wyoming represent close to half of the total gas resources in the Rockies. Overall, 26 percent of the total U.S. gas reserves are located in the Rocky Mountain region.

Can I have the next slide please?

CHAIRMAN WOOD: What was that number? Twenty-six?

MR. JAMES: Twenty-six percent. The next slide.

(Slide.)

As of december 31st, 2001, the U.S. had 183.5 tcf proved dry natural gas reserves, which is about a 3 percent increase over the 2001 figure of 177.4 tcf. Most of the reserve increases were in the states of Wyoming, Colorado and Texas. Wyoming and Colorado comprise 17 percent of the 183.5 tcf proved U.S. dry gas reserves.

From 2000 to 2001, Wyoming had the largest increased in proved reserves at 2.2 tcf, followed by Colorado at 2.1 tcf. When added together, the 4.3 tcf represents 72 percent of the 6 tcf increase in proved gas reserves.

Wyoming's and Colorado's increase in dry natural

gas reserves reflect increased development within the basins and within coal bed methane fields, particularly in the Powder River Basin.

Next slide.

(Slide.)

This slide shows that the increase in coal bed methane proved reserves from 1989 to 2001. From the chart, the 2001 proved gas reserves of fields identified as having coal bed methane have more than quadrupled the volume reported in 1989.

In 2001, proved reserves of coal bed methane increased to 17.5 tcf, a 12 percent increase from the 2000 level of 15.7 tcf. Wyoming, Colorado, New Mexico, Utah and Alabama have about 90 percent of the proved coal bed methane reserves for 2001. Wyoming had the largest increase in proved coal bed methane reserves from 2000 to 2001 at 49 percent.

Coal bed methane accounted for about 10 percent of all dry natural gas reserves in 2001.

Can I have the next slide please?

(Side.)

Eleven interstate pipelines encompass the Rockies. The total average pipeline capacity coming out of the Rockies is 5.2 bcf per day as of May of 2003. Included in this figure is the Kern River 2003 expansion which was

placed into service on May 1st, 2003.

The next slide please.

(Slide.)

Ten interstate pipelines are located in Wyoming.

The total capacity out of Wyoming is 5.5 bcf. This figure includes the latest Kern River expansion and the Williston Basin Grasslands Pipeline.

The difference in pipeline capacity out of the Wyoming and the pipeline capacity out of the Rockies is due to production serving the markets along the front range of the Colorado and the markets in Utah.

Can I have the next slide?

(Slide.)

EIA anticipates production rates from the Rockies at about 6 bcf through 2003. On the Web site of the Wyoming Energy Commission, a study shows production potentials to be almost 8 bcf per day in 2005 and 11 bcf per day in 2010. Given these projected production rates, there will be a deficiency in pipeline capacity in the future.

Can I have the next slide please?

(Slide.)

Since the mid-1999, the Commission has approved 16 projects to increase pipeline capacity to move gas out of the Rockies. These total about 3.8 bcf of capacity, 1,800 miles of pipeline and 400,000 horsepower of compression.

Approximately 11 projects affected pipeline deliveries out of the Wyoming. These total approximately 3.1 bcf per day of pipeline capacity, 1,500 miles of pipeline, and 330,000 horsepower of compression.

The majority of the projects certificated by the Commission directly impacted Wyoming.

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(Slide.)

Two projects pending before the Commission, the largest of these two is the Cheyenne Plains, which has a 560 Mmcf per day of capacity, 380 miles of pipeline, and 31,000 horsepower of compression.

Can I have the next slide please?

(Slide.)

Staff is aware of seven projects to move Rockies gas that would have a potential capacity of 2.4 bcf per day. In addition, there is a project in planning that would reverse flow on a Rockies pipelines, allowing more flexibility in moving of Rockies gas.

If all the pending projects are approved, and if all of the planned projects are filed and approved, there will still be a deficiency in pipeline capacity in 2010.

This concludes my presentation, and I'm open to questions.

CHAIRMAN WOOD: Thanks, Sheila and Raymond. That

shortfall is back on Slide 9 that there needs to be 11 bcf per day, that there would be 11 bcf per day production. So what you're adding up only gets you about 8-1/2. Is that where that's coming from?

MR. JAMES: That is correct, yes.

CHAIRMAN WOOD: Well, we've got to get the gas. There's kind of no way around it, and that's where it is. I appreciate the work that folks, you guys and gals in OEP and OGC are doing to work with the companies that want to develop this infrastructure. I think it's a real tribute to y'all to the new process, the prefiling. I noticed, you mentioned, Raymond, or Sheila, one of y'all mentioned that the NEPA prefiling review is being undertaken by which project, the Cheyenne Plains?

MS. HERNANDEZ: No. Williston Basin.

CHAIRMAN WOOD: Oh, a further expansion of that one. Is that one of the -- where does that one fall in your looking forward?

MR. JAMES: Is that the Grasslands Part 2?

CHAIRMAN WOOD: Yes.

MR. JAMES: That would show up in the projected

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CHAIRMAN WOOD: The seven or the two?

MR. JAMES: Slide 9.

CHAIRMAN WOOD: Got 'em. But is it one of the

two? It's not pending?

MR. JAMES: I'm sorry. It's the last slide,

Slide 12.

CHAIRMAN WOOD: Okay. It's one of the seven we're aware of?

MR. JAMES: Yes.

CHAIRMAN WOOD: Okay. The two pending are Cheyenne Plains and what's the other one?

MR. JAMES: The other one is a small project which it may have already been approved. It was Energy West oil line conversion.

CHAIRMAN WOOD: Oh, right.

MR. JAMES: That may have already been issued.

CHAIRMAN WOOD: And the timeline on that other one, the Cheyenne Plains, is?

MR. JAMES: Off the top of my head --

(Pause.)

MS. HERNANDEZ: It's 2005 or 2006.

CHAIRMAN WOOD: That's the in-service date?

(Pause.)

MS. HERNANDEZ: August 2005.

CHAIRMAN WOOD: And our internal timeline for that is what? Issuing the certificate?

(Pause.)

MS. HERNANDEZ: Don't know yet.

CHAIRMAN WOOD: Y'all can let us know afterwards.

MS. HERNANDEZ: That would be the environmental-driven --

CHAIRMAN WOOD: Those timelines certainly are the big ones there. Well, good. I appreciate the update. It's an important developing area, and I want to, in light of the prior certificate we just talked about, which was the El Paso, I hope and expect that we can continue to make sure those kind of shortfalls between demand and ability to deliver it don't ever happen again. So keeping our focus, public focus as well as our internal focus, on those areas where we've got some stress on the system is very important.

So I appreciate what you're doing. And I appreciate that we got the order out even before today.

Anything else?

(No response.)

CHAIRMAN WOOD: All right. We'll meet in closed meeting in 30 minutes in Room 3M4A. Meeting adjourned.

(Whereupon, at 10:45 a.m. on Wednesday, June 4, 2003, the Open Meeting adjourned.)